

Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 EB-07 CAB-02 CIAE-00 COME-00 DODE-00

DOTE-00 INR-07 NSAE-00 RSC-01 FAA-00 INRE-00 NSCE-00

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O P 042331Z FEB 75
FM SECSTATE WASHDC
TO AMEMBASSY BONN IMMEDIATE
INFO USMISSION USBERLIN PRIORITY
AMEMBASSY LONDON
AMEMBASSY PARIS

C O N F I D E N T I A L STATE 025781

E.O. 11652: GDS

TAGS: PFOR, EAIR, WB, US, UK, FR ,GW

SUBJECT: EFFECT OF ROUTE SWAP PLAN ON FARE INCREASE
PROPOSAL AND OVERALL APPROACH TO FRG ON IGS

REF: A) STATE 1320 B) BONN 1732 C) BONN 1729
D) USBER 179 E) USBER 193 F) BONN 1798

1. UK EMBASSY WASHINGTON HAS ON THREE SEPARATE
OCCASIONS IN PAST THREE DAYS APPROACHED DEPARTMENT AT
VARIOUS LEVELS TO EXPRESS GREAT ENTHUSIASM FOR BRITISH
AIRWAYS-PANAM ROUTE SWAP PROPOSAL (REFTEL C), AND
HAS URGED DEPARTMENT TO APPROVE IT FORTHWITH.
IN MOST RECENT DISCUSSION AT DEPARTMENT (FEB 4)
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UK EMBASSY OFFICER AGREED THAT TIMING OF PANAM-BA

ANNOUNCEMENT HAD BEEN BAD, BUT BELIEVED EFFORT BY BOTH AIRLINES TO RATIONALIZE SERVICES FITS WELL INTO GENERAL FRAME WHICH HAD BEEN AGREED TO BY GOVERNMENTS IN WASHINGTON IN DECEMBER (REFTEL A) AND WOULD BE WELCOMED BY FRG. EMBOFF RECALLED HOW UK FEELS COMBINATION OF FARE INCREASES, RATIONALIZATION AND SUBSIDIZES WOULD BE NECESSARY TO COVER LARGE BA OPERATING DEFICITS. FOR THIS REASON, UK WOULD LIKE TO SEE THE OUTSTANDING FARE INCREASE PROPOSAL PRESENTED TO THE FRG AS SOON AS POSSIBLE.

EMBASSY OFFICERS HERE DID NOT KNOW WHETHER COMBINATION OF PROPOSED FARE INCREASE PROPOSAL AND FULL IMPLEMENTATION OF ROUTE SWAP PLAN WOULD MEET BA'S FINANCIAL NEEDS OR WHETHER UK WOULD CONTINUE TO PRESS FRG FOR ADDITIONAL SUBSIDIES.

2. DEPARTMENT HAS ADVISED UK THAT WE WISH TO FURTHER STUDY LEGAL AS WELL AS POLITICAL AND ECONOMIC ASPECTS OF PAN AM-BA ROUTE SWAP PROPOSAL BEFORE MAKING ANY FINAL DECISIONS. AS FIRST STEP, HOWEVER, WE AGREE IT IMPORTANT THAT CAA'S REVIEW IMPACT OF AIRLINES PROPOSAL ON PENDING FARE INCREASE REQUEST. IN LIGHT OF PUBLIC STATEMENT BY BERLIN SENAT SPOKESMAN, STRUVE AND PRIVATE COMMENTS BY FRG FOREIGN OFFICE OFFICIAL KRONICK (REFTEL A) AND PAN AM BERLIN DIRECTOR RUNNETTE (REFTEL B) WE THINK IT IS IMPERATIVE THAT WE BE ABLE TO DEFEND OURSELVES IN FACE OF LIKELIHOOD OF PROBING GERMAN STUDY OF FARE INCREASE REQUEST. UK EMBASSY AGREED THAT ADDITIONAL REVIEW OF FARE INCREASE PROPOSAL IS CALLED FOR, BUT EXPRESSED CONFIDENCE THAT FULL AMOUNT COULD BE JUSTIFIED BECAUSE FARE INCREASE NECESSITATED BY AIRLINES' LOSSES INCURRED OVER PAST SIX MONTHS AS RESULT OF INCREASED FUEL PRICES, RATHER THAN REFLECTING PROJECTED INCREASES IN AIRLINE OPERATING COSTS.

3. ACTION REQUESTED: UNTIL WE CAN ASSESS FULL IMPACT OF ROUTE SWAP ON FARE INCREASE PROPOSAL CAA SHOULD NOT AGREE TO ITS SUBMISSION TO FRG. CAA SHOULD FORMALLY CONFIDENTIAL

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REQUEST, ON URGENT BASIS, REVISED FINANCIAL DATA FROM PAN AM WHICH TAKES INTO ACCOUNT SAVINGS WHICH WOULD BE REALIZED UNDER NEW AIRLINE ROUTE PROPOSAL, AND URGE UKCAA TO OBTAIN SIMILAR DATA FROM BRITISH AIRWAYS.

4. COMMENTS: WE WOULD AGREE THAT SAVINGS WHICH PAN AM WILL REALIZE AS RESULT OF LAYING OFF PERSONNEL AND CLOSING OF LOCAL OFFICES (REFS C AND F) WILL AT LEAST

PARTIALLY OFFSET NEED FOR FARE INCREASE. IN ANY CASE SOME ADJUSTMENT IN FARE INCREASE PROPOSAL WILL BE IN ORDER IF FOR NO OTHER THAN COSMETIC REASONS. UK EMBASSY HERE CONTENTS THAT UK GOVERNMENT HAD NO ADVANCE KNOWLEDGE OF BA-PAN AM NEGOTIATIONS, SOMETHING WE FIND HARD TO BELIEVE ON THE FACE OF IT, AND PARTICULARLY IN LIGHT OF SPEED AND ZEAL WITH WHICH EMBASSY APPROACHED DEPARTMENT ON MANNER. WE ARE INCLINED TO AGREE WITH USBER (REFTEL E) THAT BRITISH AIRWAYS DECISION TO SEEK

AGREEMENT TO SWAP ROUTES REFLECTS RECOGNITION BY BRITISH THAT FRG WOULD NOT PAY ADDITIONAL SUBSIDIES ON BASIS OF JOINT ALLIED AIR FARE INCREASE PROPOSAL, AND THAT THERE WAS NO WAY OF GETTING USG TO ACCEPT PRINCIPLE OF DIFFERENTIATED SUBSIDY PAYMENTS FOR AIRLINES OPERATING SAME ROUTES. IF, ON OTHER HAND, PRESENT ROUTE PROPOSAL IS ACCEPTED, BRITISH WILL BE ABLE TO SEEK DIFFERENTIATED SUBSIDY PAYMENTS FROM FRG ON ROUTES THEY FLY--SOMETHING THEY COULD NOT DO AS LONG AS PAN AM AND BRITISH AIRWAYS ARE FLYING HEAD TO HEAD COMPETITION ON THE VARIOUS IGS ROUTE SECTORS.

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